

VERNAL CITY CORPORATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
Vernal City Corporation
Vernal, Utah 84078

Ladies/Gentlemen:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Vernal City Corporation, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of Vernal City Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We did not audit the financial statements supporting the City's investment in a joint venture, Ashley Valley Sewer Management Board, stated at \$6,411,611 on June 30, 2005, or its equity in the loss of that entity of \$158,960, which is included in net income for the year then ended as described in Note 15 to the financial statements. Those statements were audited by other auditors, whose report has been furnished to us and in our opinion, insofar as it relates to the amounts included for Ashley Valley Sewer Management Board, is based solely on the report of other auditors.

In our opinion, based on our audit and the report of other auditors, the basic financial statements present fairly, in all material respects, the respective financial position of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Vernal City Corporation as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison of the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2005, on our consideration of Vernal City Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis information on pages 3 through 17 is not a required part of the basic financial statements, but is supplementary information, required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Vernal City Corporation's basic financial statements. The combining and individual nonmajor fund statements and schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Vernal City Corporation. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SMUIN, RICH & MARSING

Smuin, Rich & Marsing

Price, Utah

November 17, 2005

**VERNAL CITY CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
2004-2005**

As management of Vernal City, we offer readers of Vernal City's financial statements this narrative overview and analysis of the financial activities of Vernal City for the fiscal year ended June 30, 2005

Financial Highlights

- ❖ The assets of Vernal City exceeded its liabilities at the close of the most recent fiscal year by \$35,896,770 (*net assets*). Of this amount, \$3,283,929 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ The government's total net assets increased by \$2,303,713.
- ❖ As of the close of the current fiscal year, Vernal City's governmental funds reported combined ending fund balances of \$17,909,528 an increase of \$1,246,134 in comparison with the prior year. Approximately six percent of this total amount, \$1,061,593 is *available for spending* at the government's discretion (*unreserved fund balance*).
- ❖ At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,212,545 or 17 percent of total general fund expenditures and financial uses.
- ❖ Vernal City's total debt decreased by \$782,719 (7.5 percent) during the current fiscal year. The key factor in this decrease was the payment of debt.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Vernal City's basic financial statements. Basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government wide financial statements* are designed to provide readers with a broad overview of Vernal City's finances, in a manner similar to a private-sector business.

- ❖ The *statement of net assets* presents information on all of Vernal City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Vernal City is improving or deteriorating.
- ❖ The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Vernal City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Vernal City include general government, public safety, public works, and parks and recreation. The business-type activities of Vernal City include the Water, Sewer and Solid Waste Fund and a Municipal Building Authority and a Golf Course fund.

The government-wide financial statements include Vernal City itself (known as the *primary government*). The Municipal Building Authority, although also legally separate, functions for all practical purposes as a department of Vernal City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 18-19 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Vernal City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Vernal City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

❖ **Governmental funds.**

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements, however, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

- Because the focus of governmental funds is narrower, than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.
- Vernal City maintains many individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, the street construction fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.
- Vernal City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.
- The basic governmental fund financial statements can be found on pages 20-25 of this report.

❖ **Proprietary funds.**

- Vernal City maintains one type of proprietary fund called an enterprise fund. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements.
- Vernal City uses enterprise funds to account for its Water and Sewer and Solid Waste distribution and collection operation, and for its Municipal Building Authority, which accounts for revenues and expenses used for government buildings as well as Streets & Roads within Vernal City.
- Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer and Solid Waste operation, for the operation of the Municipal Building Authority, both of which are considered to be major funds of Vernal City.
- The basic proprietary fund financial statements can be found on pages 26-30 of this report.

Vernal City as Trustee

Vernal City is a trustee—it is responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. All of Vernal City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 31. We exclude these activities from Vernal City's other financial statements because Vernal City cannot use these assets to finance its operations. Vernal City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32-59 of this report.

Other information.

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning Vernal City.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 60-66 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Vernal City, assets exceeded liabilities by \$35,896,770 at the close of the most recent fiscal year.

By far the largest portion of Vernal City's net assets (80 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. Vernal City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although Vernal City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of Vernal City's net assets (eleven percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$3,283,929) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Vernal City is able to report positive balances in all three categories of net assets, both for the government as a whole as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

During the current fiscal year, the government's net assets increased by \$2,303,713. Governmental activities grew \$1,246,134 with most of that being unrestricted for use or meaning what is best for Vernal City. Business-type activities grew \$1,057,579 but most of that will be restricted for infrastructure use.

Table 1
Net Assets

	Governmental Activities	Business-type Activities	Total Primary Government
	2005	2005	2005
Current assets	\$ 6,591,525	\$ 2,516,508	\$ 9,108,033
Capital assets	18,832,315	19,883,005	38,715,320
Total assets	<u>\$ 25,423,840</u>	<u>\$ 22,399,513</u>	<u>\$ 47,823,353</u>
Long-term debt outstanding	\$ 5,438,000	\$ 3,966,845	\$ 9,404,845
Other liabilities	2,076,312	445,426	2,521,738
Total liabilities	<u>\$ 7,514,312</u>	<u>\$ 4,412,271</u>	<u>\$ 11,926,583</u>
Net assets:			
Invested in capital assets, net of debt	\$ 13,336,283	\$ 15,530,242	\$ 28,866,525
Restricted	3,511,652	234,664	3,746,316
Unrestricted	1,061,593	2,222,336	3,283,929
Total net assets	<u>\$ 17,909,528</u>	<u>\$ 17,987,242</u>	<u>\$ 35,896,770</u>

Governmental activities

Governmental activities increased Vernal City's net assets by \$1,246,134 thereby accounting for 54 percent of the total growth in the net assets of Vernal City. Key elements of this increase are as follows:

Table 2
Changes in Net Assets

	Governmental Activities FY-2005	Business-type Activities FY-2005	Total Primary Government FY-2005
Revenues			
Program Revenues:			
Charges for services	\$ 910,871	\$ 3,192,835	\$ 4,103,706
Operating grants and contributions	350,644	131,537	482,181
Capital grants and contributions	25,156	779,847	805,003
General Revenues:			
Property taxes	241,841	150,000	391,841
Sales and franchise taxes	5,017,535		5,017,535
Grants and contrib. not restricted	88,818		88,818
Unrestricted investment earnings	123,370	17,307	140,677
Business-type activities cost sharing	779,736		779,736
Other general revenues	58,034	59,759	117,793
Transfers in (out)	(128,134)	128,134	
Joint venture gain (loss)		(158,960)	(158,960)
Total revenues	<u>\$ 7,467,871</u>	<u>\$ 4,300,459</u>	<u>\$ 11,768,330</u>
Program Expenses			
General government	\$ 1,298,320		\$ 1,298,320
Public safety	2,084,019		2,084,019
Public works	1,315,407		1,315,407
Parks and recreation	572,840		572,840
Intergovernmental	197,568		197,568
Capital outlay	646,609		646,609
Interest on long-term debt	106,974		106,974
Utility fund		\$ 3,100,943	3,100,943
Municipal building authority		134,289	134,289
Golf Course		7,648	7,648
Total expenses	<u>\$ 6,221,737</u>	<u>\$ 3,242,880</u>	<u>\$ 9,464,617</u>
Change in net assets	<u>\$ 1,246,134</u>	<u>\$ 1,057,579</u>	<u>\$ 2,303,713</u>
Net Assets - beginning	\$ 16,675,106	\$ 16,929,663	\$ 33,604,769
Prior period adjustment	(11,712)		(11,712)
Net Assets - ending	<u>\$ 17,909,528</u>	<u>\$ 17,987,242</u>	<u>\$ 35,896,770</u>

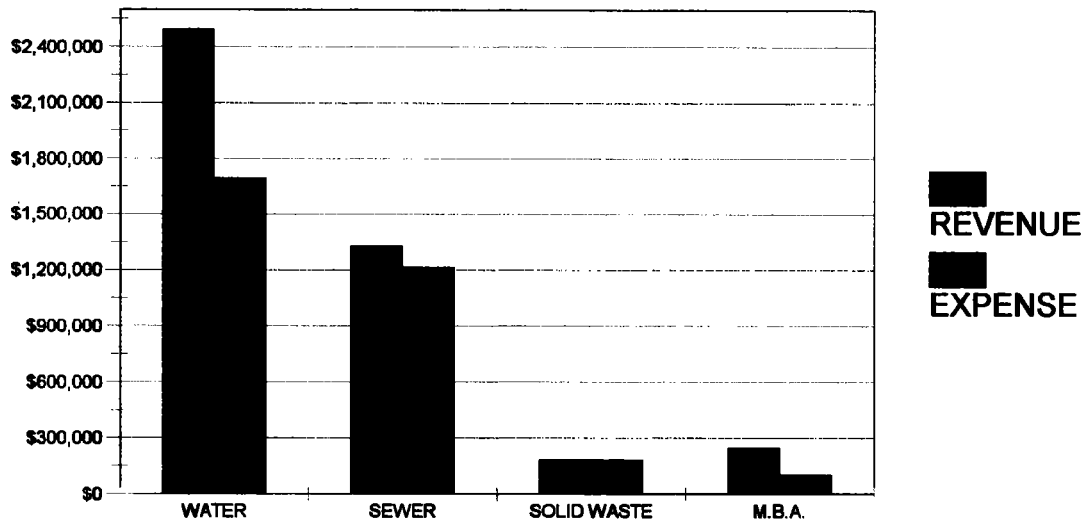
- ❖ Property Tax collected decreased by \$21,816 (6.9 %) during the year.
- ❖ Sales Tax collected increased \$665,243 (25.5%) during the year. This increase is due largely to the increase in activity in oil and gas in the Uintah Basin.
- ❖ Franchise Taxes decreased by \$103,300 (17.0%).
- ❖ Operating grants for governmental activities decreased by \$86,190 (17.9%).
- ❖ Capital grants for governmental activities decreased by \$592,704 (73.6%).
- ❖ General fund operating expenditures, less transfers, decreased by \$55,718 (1.1%).

Business-type activities. Business-type activities increased Vernal City's net assets by \$1,057,579 accounting for 46 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

- ❖ Utility Fund is separated into 5 departments Water, Sewer, Solid Waste, Municipal Building Authority, and Golf Course fund. The following is a breakdown of the increase to net assets per department:

1) Water-	\$ 802,000
2) Sewer-	116,732
3) Solid Waste-	1,885
4) MBA-	144,610
5) Golf Course-	(7,648)
	<u>\$ 1,057,579</u>
- ❖ Non-Operating revenue made up the majority of net assets. The significant increase is due to a water line replacement grant that hasn't been expensed yet. The total amount was \$640,000. Property tax was \$150,000. Impact fees increased \$44,060 (73.7%). Sewer had a net gain of non-operating revenue of \$173,013. Solid Waste was break even. Municipal Building Authority had an increase in net asset, but principle payment of debt was not considered.
- ❖ Charges for services for business type activities decreased \$5,840 down (0.2%)
- ❖ Operating cost for the Utility fund for this period is \$3,088,649 an increase of \$253,215 (8.9%). The most significant change resulted from an increase in treated water cost. Other increases are a result of inflationary rise in the cost of services and supplies.
- ❖ Investment earnings decreased by \$1,880 for business-type activities because of an overall decrease in the size of the investment portfolio.
- ❖ The Utility Fund loss or decrease was \$226,248 before non-operating revenue.

REVENUE & EXPENSE-BUSINESS TYPE



Financial Analysis of the Government's Funds

As noted earlier, Vernal City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of Vernal City's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Vernal City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

- ❖ As of the end of the current fiscal year, Vernal City's governmental funds reported combined ending fund balances of \$4,724,197, an increase of \$479,945 (11.3%) in comparison with the prior year. Approximately 96.0% of this total amount (\$4,520,672) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to the construction of Class "C" road projects (\$52,573), 2) to pay for earned but unused compensated absences of City employees (\$150,952).
- ❖ The General fund is the chief operating fund of Vernal City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,212,545, while total fund balance reached \$1,416,070. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 16.9% of total general fund expenditures, while total fund balance represents 19.7% of that same amount.
- ❖ The fund balance of Vernal City's general fund increased by \$62,409 during the current fiscal year. Key factors in this growth are as follows:

- Total taxes collected showed a significant increase of \$720,478 (15.9%), of which local sales tax collections had an increase of \$665,241 (25.5%). This increase was primarily generated by the increase in the total economy for the area in the past year. There was no sales tax rate increased in the current fiscal year.
- Total of Other Financing Resources or Transfers out increased by 50% (\$1,026,547). This was money set aside for future projects. Some of those projects are Street Construction Fund, Municipal Building Fund, and a new one called Educational Development Fund for higher education.
- ❖ The Street Construction fund has a fund balance of \$1,054,246, all of which has been restricted by the City council for use on street construction. This is an increase of \$289,966, all of which was used in construction of streets, curb, gutter and sidewalk projects during the fiscal year. The general fund transferred \$400,000 to this fund.
- ❖ The Debt service fund has a total fund balance of \$259,191, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$86,259.
- ❖ The Other Governmental Fund balance increased by \$46,702. Transfer in increased by \$409,909 (137.2%). That money was used on the City building remodel of a new roof, Police office upgrade, and air conditioning. The Equipment fund also purchased a new road grader.

Proprietary funds. Vernal City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

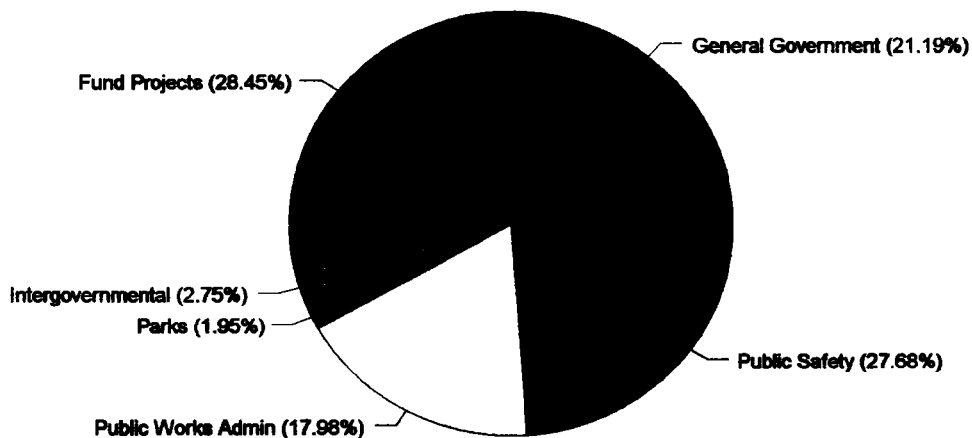
- ❖ Unrestricted net assets of the Utility Fund increased by \$890,617. At the end of the year amounted to \$1,949,316, or (12.3%) of total net assets. This amount is available for use in the Utility fund. Restricted net assets of the Utility Fund at the end of the year amounted to \$234,664, or (1.5%) of total net assets. The remainder of the net assets \$13,685,114, or (86.2%) is invested in capital assets, net of related debt.
- ❖ Unrestricted net assets of the Municipal Building Authority at the end of the year increased by \$144,610. At the end of the year amounted to \$273,020. The remainder \$1,463,651 of the total net assets are invested in capital assets net of related debt. Total net assets for the Municipal Building Authority amounted to \$1,736,671.
- ❖ The total growth in net assets for both funds was \$920,617 and \$144,610, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of Vernal City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were (\$956,900 increase in appropriations) and can be briefly summarized as follows:

- ❖ \$737,376 increase allocated to inter-fund transfers.
- ❖ \$20,167 increase allocated to the Mayor & City council
- ❖ \$13,122 increase allocated to General government buildings
- ❖ \$23,029 increases allocated to Fire department
- ❖ \$40,384 increase allocated to City Parks department
- ❖ \$21,205 increase to Non-departmental
- ❖ \$108,618 increase allocated to Police
- ❖ All other general fund departments had budget changes of less than \$10,000. This increase was to be funded out of increases in tax revenues. The net changes to the final budget resulted in an appropriated increase to fund balance of \$265,115. During the year, revenues exceeded final amended budgetary estimates by \$65,875 and final amended expenditures were less than budgetary estimates by \$199,240.

Total General Fund Expenditures



Capital Asset and Debt Administration

Capital assets. Vernal City's investment in capital assets for its governmental and Business-type activities as of June 30, 2005, amounts to \$32,303,709 net of accumulated depreciation. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads and highways. The total increase in Vernal City's investment in capital assets for the current fiscal year was 2.7 percent a 2.2 percent increase for governmental activities and a 0.5 percent increase for business-type activities.

Major capital asset events during the current fiscal year included the following:

- Police department purchased 2 new vehicles along with a crime scene Van. The Van was purchased with the Homeland Security Grant.
- City Park Dinosaurs were given a refurbish and power to roar again.
- The 500 South 500 West federal rebuild along with other federal projects were completed with a city match of \$140,650. Street project for FY 2003 were finished in the amount of \$300,245 with future projects remaining. There were curb, gutter, and sidewalks completed along with some street lighting.
- Storm Drain construction was done in the amount of \$35,810 and a new road grader was bought in the amount of \$193,000
- Various building and system additions and improvements were completed in the Police Department and Administration building at a cost of \$290,615.
- Water department did some infrastructure work for a combine amount of \$168,850. Sewer department purchased a new Vac truck for \$128,000 and took some video of the sewer system.

Additional information on Vernal City's capital assets can be found in Note 5 on pages 42-45 of this report.

Table 3
Vernal City's Capital Assets
Net of Depreciation

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government				
Governmental activities:				
Capital assets not being depreciated:				
Land and easements	\$ 1,236,661			\$ 1,236,661
Water stock	23,195			23,195
Total capital assets not being depreciated	\$ 1,259,856	\$...	\$...	\$ 1,259,856

Table 3 (Cont'd)
Vernal City's Capital Assets
Net of Depreciation

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government				
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 632,362	\$ 290,615		\$ 922,977
Improvements other than buildings	2,578,429	28,516		2,606,945
Machinery and equipment	1,358,012	259,275		1,617,287
Automotive equipment	1,727,012	99,883		1,826,895
Infrastructure	<u>15,480,771</u>	<u>542,325</u>		<u>16,023,096</u>
 Total capital assets being depreciated:	 <u>\$ 21,776,586</u>	 <u>\$ 1,220,614</u>	 <u>\$...</u>	 <u>\$ 22,997,200</u>
 Less accumulated depreciation for:				
Buildings	\$ 242,630	\$ 21,383		\$ 264,013
Improvements other than buildings	164,275	92,337		256,612
Machinery and equipment	856,502	77,808		934,310
Automotive equipment	929,256	111,921		1,041,177
Infrastructure	<u>2,406,134</u>	<u>522,495</u>		<u>2,928,629</u>
 Total accumulated depreciation	 <u>\$ 4,598,797</u>	 <u>\$ 825,944</u>	 <u>\$...</u>	 <u>\$ 5,424,741</u>
 Total capital assets being depreciated, net	 <u>\$ 17,177,789</u>	 <u>\$ 394,670</u>	 <u>\$...</u>	 <u>\$ 17,572,459</u>
 Governmental activities capital assets, net	 <u><u>\$ 18,437,645</u></u>	 <u><u>\$ 394,670</u></u>	 <u><u>\$...</u></u>	 <u><u>\$ 18,832,315</u></u>

Table 3 (Cont'd)
Vernal City's Capital Assets
Net of Depreciation

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land and easements	\$ 588,544			\$ 588,544
Water stock	54,956			54,956
Total capital assets not being depreciated	<u>\$ 643,500</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 643,500</u>
Capital assets being depreciated:				
Buildings	\$ 1,867,528			\$ 1,867,528
Improvement other than buildings	16,650,025	\$ 408,436		17,058,461
Machinery and equipment	579,654	12,283		591,937
Automotive equipment	373,665	128,135		501,800
Total capital assets being depreciated	<u>\$ 19,470,872</u>	<u>\$ 548,854</u>	<u>\$...</u>	<u>\$ 20,019,726</u>
Less accumulated depreciation for:				
Buildings	\$ 562,658	\$ 58,259		\$ 620,917
Improvements other than buildings	5,445,815	338,260		5,784,075
Machinery and equipment	483,182	23,935		507,117
Automotive equipment	213,021	54,419		267,440
Total accumulated depreciation	<u>\$ 6,704,676</u>	<u>\$ 474,873</u>	<u>\$...</u>	<u>\$ 7,179,549</u>
Total capital assets being depreciated, net	<u>\$ 12,753,913</u>	<u>\$ 73,981</u>	<u>\$...</u>	<u>\$ 12,827,894</u>
Business-type activities capital assets, net	<u>\$ 13,397,413</u>	<u>\$ 73,981</u>	<u>\$...</u>	<u>\$ 13,471,394</u>

Long-term debt. At the end of the current fiscal year, Vernal City has no General Obligation debt outstanding. Vernal City had total bonded debt outstanding of \$ 9,404,854. All of this debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds). Vernal City also has \$491,000 special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment.

TOTAL GOVERNMENTAL ACTIVITY

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST	TOTAL
2006	\$ 300,000	\$ 90,872	\$ 390,872
2007	305,000	84,164	389,164
2008	314,000	77,171	391,171
2009	365,976	99,811	465,787
2010	369,152	91,027	460,179
2011-2014	1,521,932	276,230	1,798,162
2015-2019	1,138,282	179,475	1,317,757
2020-2024	802,760	83,450	886,210
2025-2029	320,898	19,175	340,073
	<u>\$ 5,438,000</u>	<u>\$ 1,001,375</u>	<u>\$ 6,439,375</u>

TOTAL BUSINESS-TYPE ACTIVITY

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST	TOTAL
2006	\$ 372,574	\$ 45,610	\$ 418,184
2007	362,270	59,281	421,551
2008	337,000	53,342	390,342
2009	258,000	47,258	305,258
2010	261,000	43,305	304,305
2011-2014	868,001	37,460	905,461
2015-2019	825,000	94,227	919,227
2020-2024	519,000	33,239	552,239
2025-2029	164,000	3,475	167,475
	<u>\$ 3,966,845</u>	<u>\$ 417,197</u>	<u>\$ 4,384,042</u>

- ❖ Vernal City didn't accrue any debt FY 2005. Vernal did pay \$782,719 to debt payment. Vernal did finish SID 2004 and is looking to start a new one for FY 2006.
- ❖ Because Vernal City has no general obligation debt and all other debt is financed through the State of Utah and its several debt financing boards, we do not maintain a bond rating from outside rating agencies such as Standard & Poor's, Fitch and Moody's.
- ❖ State statutes limit the amount of general obligation debt a governmental entity may issue to 4 percent of the value of the taxable property in the City. The current debt limitation for Vernal City is \$11,693,485, plus an additional 8 percent (\$23,386,971) for water, artificial lights and sewers.

Additional information on Vernal City's long-term debt can be found in Note 7 on pages 48-49 of this report.

Economic Factors and Next Year's Budgets and Rates

- ❖ The unemployment rate for Vernal City/Uintah County is currently 3.8 percent. Compared to the state's current unemployment rate of 4.5 percent and the national rate of 5.0 percent.
- ❖ Employment was up over the previous year by 7.7.
- ❖ The current job market for the area is showing strength with an increase of 848 new jobs in support services for mining and construction adding 443 new positions. Because of the growth, new dwelling units permits quadrupled from last year and valuation tripled.
- ❖ The occupancy rate of Vernal City's central business district has remained strong. The City is working hard to maintain vitality of the down town business community.
- ❖ The largest employers in the Vernal City/Uintah County area are:

<u>Company</u>	<u>Industry</u>	<u>Employment</u>
1. Uintah School District	Public Education	500-999
2. Uintah County	Local Government	250-499
3. Ute Indian Tribe	Tribal Government	250-499
4. Wal-Mart	Discount Department Store	250-499
5. Ashley Valley Med. Center	Health Care	100-249

- ❖ Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing Vernal City's budget for the 2006 fiscal year.

Because of the strong position of the general fund unrestricted fund balance (\$1,212,545) at the end of this year, coupled with the current strong economy that is projected to increase the collection of sales and other user taxes, the City has reduced the general property tax in the general fund by \$150,000 or a 50% reduction. The other \$150,000 has been budgeted for use in the Water utility fund. This has made it possible for the city to maintain the current water and sewer rates for the new budget year.

The combined budget proposed for the fiscal year ending June 30, 2006 is \$13,894,786. This represents an increase of \$2,413,239 from the combined budget for June 30, 2005. This is primarily due to the fact that Vernal City will be seeking funding for projects to expand and upgrade infrastructure and equipment. Most other changes in the budget for next year are based primarily on normal inflationary cost of goods and services.

Requests for Information

This financial report is designed to provide a general overview of Vernal City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 447 East Main, Vernal City, Utah, 84078.

VERNAL CITY CORPORATION
STATEMENT OF NET ASSETS
JUNE 30, 2005

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<u>ASSETS</u>			
Cash and cash equivalents	\$ 265,615	\$ 152,676	\$ 418,291
Investments: restricted	512,626	1,006,954	1,519,580
Investments at cost	4,336,184	71,564	4,407,748
Accounts receivable (net)		196,545	196,545
Assessments receivable	354,518		354,518
Miscellaneous receivable	81,190	6,168	87,358
Due from other funds		1,036,643	1,036,643
Due from other governmental units	1,036,392	10,182	1,046,574
Inventory of supplies	5,000	35,776	40,776
Capital assets (net of accumulated depreciation):			
Water stock	23,195	54,956	78,151
Land and assessments	1,236,661	588,544	1,825,205
Buildings	658,964	1,246,611	1,905,575
Improvements other than buildings	2,350,333	11,274,386	13,624,719
Machinery and equipment	682,977	72,537	755,514
Infrastructure	13,094,467		13,094,467
Automotive equipment	785,718	234,360	1,020,078
Investment in joint venture		6,411,611	6,411,611
Total assets	\$ 25,423,840	\$ 22,399,513	\$ 47,823,353
<u>LIABILITIES</u>			
Accounts payable	\$ 317,123	\$ 261,243	\$ 578,366
Due to other funds	1,113,534	78,410	1,191,944
Accrued liabilities	3,782	10,651	14,433
Escrow deposit payable	102,968	16,530	119,498
Bond interest payable	58,032	33,162	91,194
Due to other governmental units		40,430	40,430
Deferred revenue	329,921	5,000	334,921
Noncurrent liabilities:			
Revenue bonds payable - Due within one year	300,000	372,574	672,574
Revenue bonds payable - Due in more than one year	5,138,000	3,594,271	8,732,271
Compensated absences	150,952		150,952
Total liabilities	\$ 7,514,312	\$ 4,412,271	\$ 11,926,583
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 13,336,283	\$ 15,530,242	\$ 28,866,525
Restricted for:			
Class "B" Roads	52,573		52,573
Compensated absences	150,952		150,952
Special revenue funds	180,399		180,399
Capital projects	2,868,537		2,868,537
Transfers and contributions		234,664	234,664
Debt service	259,191		259,191
Unrestricted	1,061,593	2,222,336	3,283,929
Total net assets	\$ 17,909,528	\$ 17,987,242	\$ 35,896,770

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT BUSINESS-TYPE ACTIVITIES
FUNCTION/PROGRAMS						
Primary government:						
Governmental activities:						
General government	\$ 1,298,320	\$ 485,884			\$ (812,436)	\$ (812,436)
Public safety	2,084,019	255,261	\$ 98,041	\$ 25,156	(1,705,561)	(1,705,561)
Highways and public improvements	1,315,407	162,340	252,603		(900,464)	(900,464)
Parks and recreation	572,840	7,386			(565,454)	(565,454)
Intergovernmental	197,568				(197,568)	(197,568)
Capital outlay	646,609				(646,609)	(646,609)
Interest on long-term debt	106,974				(106,974)	(106,974)
Total governmental activities	\$ 6,221,737	\$ 910,871	\$ 350,644	\$ 25,156	\$ (4,935,066)	\$ (4,935,066)
Business-type activities:						
Utility fund	\$ 3,100,943	\$ 2,966,261	\$ 131,537	\$ 779,847		\$ 776,702
Municipal Building Authority	134,289	226,574				92,285
Golf Course	7,648					(7,648)
Total business-type activities	\$ 3,242,880	\$ 3,192,835	\$ 131,537	\$ 779,847	\$ 861,339	\$ 861,339
Total primary government	\$ 9,464,617	\$ 4,103,706	\$ 482,181	\$ 805,003	\$ (4,935,066)	\$ (4,073,727)
General revenues:						
Property taxes					\$ 241,841	\$ 150,000
Sales and franchise taxes					5,017,535	5,017,535
Grants and contributions not restricted to specific programs					88,818	88,818
Unrestricted investment earnings					123,370	17,307
BTAs cost sharing allocation					779,736	140,677
Miscellaneous					58,034	779,736
Joint venture gain (loss)						59,759
Transfers in (out)					(128,134)	(158,960)
Total general revenues and transfers					\$ 6,181,200	\$ 196,240
Change in net assets					\$ 1,246,134	\$ 1,057,579
Net assets - beginning					16,675,106	16,929,663
Prior period adjustment					(11,712)	33,604,769
Net assets - ending					\$ 17,909,528	\$ 17,987,242
						\$ 35,896,770

The notes to the financial statements are an integral part of this statement.

VERNAL CITY CORPORATION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	GENERAL FUND	STREET CONSTRUCTION	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash	\$ 263,915			\$ 1,700	\$ 265,615
Investments, restricted	42,961	\$ 313,091	\$ 53,122	103,452	\$ 512,626
Investments at cost	1,746,479	483,318		2,106,387	4,336,184
Receivables (net):					
Assessments			354,518		354,518
Accounts	78,710	2,480			81,190
Due from other funds	78,410	255,357	181,472	79,485	594,724
Due from other governmental units	1,026,931			9,461	1,036,392
Prepaid expenses	5,000				5,000
Total assets	\$ 3,242,406	\$ 1,054,246	\$ 589,112	\$ 2,300,485	\$ 7,186,249
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 207,563			\$ 109,560	\$ 317,123
Due to other funds	1,515,805			192,453	1,708,258
Escrow deposits payable	102,968				102,968
Accrued liabilities				3,782	3,782
Deferred revenue			\$ 329,921		329,921
Total liabilities	\$ 1,826,336	\$	\$ 329,921	\$ 305,795	\$ 2,462,052
Fund balances:					
Reserved for:					
Class "C" Roads	\$ 52,573				\$ 52,573
Compensated absences	150,952				150,952
Unreserved, reported in:					
General fund	1,212,545				1,212,545
Special revenue funds			\$	180,399	180,399
Debt service fund			\$ 259,191		259,191
Capital projects fund		\$ 1,054,246		1,814,291	2,868,537
Total fund balances	\$ 1,416,070	\$ 1,054,246	\$ 259,191	\$ 1,994,690	\$ 4,724,197
Total liabilities and fund balances	\$ 3,242,406	\$ 1,054,246	\$ 589,112	\$ 2,300,485	\$ 7,186,249

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances - governmental fund types: \$ 4,724,197

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land and easements	\$ 1,236,661	
Water stock	23,195	
Buildings	658,964	
Improvements other than buildings	2,350,333	
Machinery and equipment	682,977	
Automotive equipment	785,718	
Infrastructure	<u>13,094,467</u>	18,832,315

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Bond interest payable	\$ (58,032)	
Revenue bonds payable - current portion	(300,000)	
Revenue bonds payable - one year	(5,138,000)	
Compensated absences	<u>(150,952)</u>	<u>(5,646,984)</u>

Net assets of governmental activities \$ 17,909,528

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL FUND	STREET CONSTRUCTION	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	\$ 5,259,376				\$ 5,259,376
Licenses and permits	166,364				166,364
Intergovernmental	537,267			\$ 116,347	653,614
Charges for services	856,752				856,752
Fines and forfeitures	335,666				335,666
Investment earnings	47,763	\$ 22,855	\$ 1,275	51,477	123,370
Assessment revenues			127,603		127,603
Contributions	24,868				24,868
Miscellaneous revenue	27,338			21,054	48,392
Total revenues	\$ 7,255,394	\$ 22,855	\$ 128,878	\$ 188,878	\$ 7,596,005
EXPENDITURES:					
Current:					
General government	\$ 1,524,320				\$ 1,524,320
Public safety	1,991,207			\$ 106,612	2,097,819
Highways and public improvements	1,293,123			35,810	1,328,933
Parks, recreation, and public property	140,214			360,071	500,285
Intergovernmental expenditures	197,568				197,568
Capital outlay		\$ 449,889		196,720	646,609
Debt service:					
Principal retirement			\$ 294,593	48,501	343,094
Interest and fiscal charges			108,043	2,127	110,170
Total expenditures	\$ 5,146,432	\$ 449,889	\$ 402,636	\$ 749,841	\$ 6,748,798
Excess revenues over (under) expenditures	\$ 2,108,962	\$ (427,034)	\$ (273,758)	\$ (560,963)	\$ 847,207
OTHER FINANCING SOURCES (USES):					
Transfers in		\$ 717,000	\$ 411,266	\$ 708,680	\$ 1,836,946
Transfers out	\$ (1,819,137)			(145,943)	(1,965,080)
Rents	(227,416)				(227,416)
Total other financing sources (uses)	\$ (2,046,553)	\$ 717,000	\$ 411,266	\$ 562,737	\$ (355,550)
Excess of revenues and other sources over (under) expenditures and other uses	\$ 62,409	\$ 289,966	\$ 137,508	\$ 1,774	\$ 491,657
FUND BALANCES - beginning of year	1,359,052	764,280	172,932	1,947,988	4,244,252
Prior period adjustment	(5,391)		(51,249)	44,928	(11,712)
FUND BALANCES - end of year	\$ 1,416,070	\$ 1,054,246	\$ 259,191	\$ 1,994,690	\$ 4,724,197

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 491,657
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	394,670
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	346,290
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	13,517
Change in net assets of governmental activities	\$ 1,246,134

"The notes to the financial statements are an integral part of this statement."

**VERNAL CITY CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	BUDGET AMOUNTS			VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL AMOUNTS	
REVENUES:				
Taxes:				
Property taxes	\$ 222,000	\$ 213,921	\$ 242,680	\$ 28,759
General sales and use tax	3,150,000	4,205,000	4,250,184	45,184
Franchise tax	455,000	495,000	503,933	8,933
Transient room tax	47,000	56,000	63,319	7,319
Tele-Communications tax	300,000	206,000	199,260	(6,740)
Licenses and permits	118,200	154,500	166,364	11,864
Intergovernmental	541,100	587,995	537,267	(50,728)
Charges for services	840,126	859,276	856,752	(2,524)
Fines and forfeitures	310,350	314,550	335,666	21,116
Investment earnings	22,600	45,000	47,763	2,763
Contributions	10,400	25,240	24,868	(372)
Miscellaneous revenue	18,100	27,037	27,338	301
Total revenues	\$ 6,034,876	\$ 7,189,519	\$ 7,255,394	\$ 65,875
EXPENDITURES:				
Current:				
General government:				
Mayor and council	\$ 309,533	\$ 329,700	\$ 327,230	\$ 2,470
City manager	119,943	122,450	120,024	2,426
Finance	307,589	314,629	305,112	9,517
Attorney	97,770	112,870	103,563	9,307
Non-departmental	290,879	312,084	303,227	8,857
Government buildings	74,850	87,972	82,594	5,378
Planning and community development	99,336	109,385	106,281	3,104
Justice court	182,251	178,776	176,289	2,487
Total general government	\$ 1,482,151	\$ 1,567,866	\$ 1,524,320	\$ 43,546
Public safety:				
Police	\$ 1,470,643	\$ 1,579,261	\$ 1,522,729	\$ 56,532
Fire	222,019	245,048	231,199	13,849
Victims advocate	61,259	63,013	56,096	6,917
Animal shelter	167,322	189,758	181,183	8,575
Total public safety	\$ 1,921,243	\$ 2,077,080	\$ 1,991,207	\$ 85,873

**VERNAL CITY CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	BUDGET AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
Highways and public improvements:				
Streets department	\$ 1,122,017	\$ 862,662	\$ 832,167	\$ 30,495
Motor pool	163,231	166,943	162,498	4,445
Public works administration and engineering	325,040	304,655	298,458	6,197
Total highways and public improvements	\$ 1,610,288	\$ 1,334,260	\$ 1,293,123	\$ 41,137
Parks, recreation, and public property:				
Parks	\$ 117,896	\$ 158,484	\$ 140,214	\$ 18,270
Cemetery	1,384	1,180		1,180
Total parks, recreation and public property	\$ 119,280	\$ 159,664	\$ 140,214	\$ 19,450
Intergovernmental expenditures:				
Contributions to other governmental units		\$ 213,616	\$ 197,568	\$ 16,048
Total intergovernmental expenditures	\$...	\$ 213,616	\$ 197,568	\$ 16,048
Total expenditures	\$ 5,132,962	\$ 5,352,486	\$ 5,146,432	\$ 206,054
Excess of revenue over (under) expenditures	\$ 901,914	\$ 1,837,033	\$ 2,108,962	\$ 271,929
OTHER FINANCING SOURCES (USES):				
Transfers out	\$ (1,084,696)	\$ (1,812,323)	\$ (1,819,137)	\$ (6,814)
Rents	(217,667)	(227,416)	(227,416)	
Total other financing sources (uses)	\$ (1,302,363)	\$ (2,039,739)	\$ (2,046,553)	(6,814)
Excess of revenues and other sources over (under) expenditures and other uses	\$ (400,449)	\$ (202,706)	\$ 62,409	\$ 265,115
Fund balances - beginning of year	400,449	202,706	1,359,052	1,156,346
Prior period adjustment			(5,391)	(5,391)
Fund balances - end of year	\$...	\$...	\$ 1,416,070	\$ 1,416,070

VERNAL CITY CORPORATION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	UTILITY FUND	MUNICIPAL BUILDING AUTHORITY	NONMAJOR FUND GOLF COURSE	TOTAL
<u>ASSETS</u>				
Current assets:				
Cash	\$ 5,825	\$ 146,851		\$ 152,676
Investments: restricted	861,277	145,677		1,006,954
Investments at cost	70,350	1,214		71,564
Receivables - net				
Utilities	196,545			196,545
Miscellaneous	6,168			6,168
Due from other governmental units	10,182			10,182
Due from other funds	981,405	8,800	\$ 46,438	1,036,643
Inventory supplies	35,776			35,776
Total current assets	\$ 2,167,528	\$ 302,542	\$ 46,438	\$ 2,516,508
Noncurrent assets:				
Water stock	\$ 54,956			\$ 54,956
Land	7,950	\$ 213,260	\$ 300,711	521,921
Land easements	66,623			66,623
Buildings	67,541	1,741,688	58,299	1,867,528
Improvements	15,083,450	1,880,348	94,663	17,058,461
Machinery and equipment	275,647	155,344	148,663	579,654
Automotive equipment	501,801			501,801
Less: Accumulated depreciation	(5,801,067)	(1,111,186)	(267,297)	(7,179,550)
Investment in joint venture	6,411,611			6,411,611
Total noncurrent assets	\$ 16,668,512	\$ 2,879,454	\$ 335,039	\$ 19,883,005
Total assets	\$ 18,836,040	\$ 3,181,996	\$ 381,477	\$ 22,399,513
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable	\$ 261,243			\$ 261,243
Utility deposits	16,530			16,530
Accrued liabilities	10,651			10,651
Accrued interest payable	6,852	\$ 26,310		33,162
Due to other governmental units	5,825	34,605		40,430
Due to other funds		78,410		78,410
Current portion - long-term debt	158,574	214,000		372,574
Deferred revenue		5,000		5,000
Total current liabilities	\$ 459,675	\$ 358,325	\$...	\$ 818,000

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>TOTAL</u>
	<u>UTILITY FUND</u>	<u>MUNICIPAL BUILDING AUTHORITY</u>	<u>NONMAJOR FUND GOLF COURSE</u>	
Noncurrent liabilities:				
Revenue bonds payable	<u>\$ 2,507,271</u>	<u>\$ 1,087,000</u>		<u>\$ 3,594,271</u>
Total noncurrent liabilities	<u>\$ 2,507,271</u>	<u>\$ 1,087,000</u>	<u>\$...</u>	<u>\$ 3,594,271</u>
Total liabilities	<u>\$ 2,966,946</u>	<u>\$ 1,445,325</u>	<u>\$...</u>	<u>\$ 4,412,271</u>
Net Assets:				
Invested in capital assets, net of related debt	<u>\$ 13,685,114</u>	<u>\$ 1,463,651</u>	<u>\$ 381,477</u>	<u>\$ 15,530,242</u>
Restricted	<u>234,664</u>			<u>234,664</u>
Unrestricted	<u>1,949,316</u>	<u>273,020</u>		<u>2,222,336</u>
Total net assets	<u>\$ 15,869,094</u>	<u>\$ 1,736,671</u>	<u>\$ 381,477</u>	<u>\$ 17,987,242</u>

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES - ENTERPRISES FUNDS			
	UTILITY FUND	MUNICIPAL BUILDING AUTHORITY	NONMAJOR FUND GOLF COURSE	TOTAL
Operating revenues:				
Charges for sales and services	\$ 2,862,401			\$ 2,862,401
Miscellaneous - rents		\$ 226,574		226,574
Total operating revenues	\$ 2,862,401	\$ 226,574	\$...	\$ 3,088,975
Operating expenses:				
Wages and benefits	\$ 417,750			\$ 417,750
Services and supplies	2,298,871	\$ 9,407		2,308,278
Depreciation	372,028	95,197	\$ 7,648	474,873
Total operating expenses	\$ 3,088,649	\$ 104,604	\$ 7,648	\$ 3,200,901
Operating income (loss)	\$ (226,248)	\$ 121,970	\$ (7,648)	\$ (111,926)
Nonoperating revenues (expenses):				
Interest revenue	\$ 13,726	\$ 3,580		\$ 17,306
Interest expense and fiscal charges	(12,294)	(29,685)		(41,979)
Miscellaneous	11,014	48,745		59,759
Grants	779,847			779,847
Transfer AVSMB	131,537			131,537
Impact fees	103,860			103,860
Property taxes	150,000			150,000
Joint venture income (loss)	(158,960)			(158,960)
Total nonoperating revenues (expenses)	\$ 1,018,730	\$ 22,640	\$...	\$ 1,041,370
Income (loss) before transfers	\$ 792,482	\$ 144,610	\$ (7,648)	\$ 929,444
Transfers In (Out):				
Transfers	\$ 128,135			\$ 128,135
Total transfers in (out):	\$ 128,135	\$...	\$...	\$ 128,135
Change in net assets	\$ 920,617	\$ 144,610	\$ (7,648)	\$ 1,057,579
Total net assets - beginning	14,948,477	1,592,061	389,125	16,929,663
Total net assets - ending	\$ 15,869,094	\$ 1,736,671	\$ 381,477	\$ 17,987,242

"The notes to the financial statements are an integral part of this statement."

**VERNAL CITY CORPORATION
STATEMENT OF CASH FLOWS
PROPERETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	UTILITY FUND	MUNICIPAL BUILDING AUTHORITY	NONMAJOR FUND GOLF COURSE	TOTAL
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 2,862,450	\$ 217,774		\$ 3,080,224
Cash payments to suppliers	(2,260,852)	(9,407)		(2,270,259)
Cash payments to employees	(416,503)			(416,503)
Net cash provided (used) by operating activities	\$ 185,095	\$ 208,367	\$...	\$ 393,462
Cash Flows From Noncapital Financing Activities:				
Net loans - other funds	\$ (174,701)			\$ (174,701)
Impact fees	103,860			103,860
Property taxes	150,000			150,000
Transfer (to) from other funds	128,135			128,135
Net cash provided (used) by noncapital financing activities	\$ 207,294	\$...	\$...	\$ 207,294
Cash Flows From Capital and Related Financing Activities:				
Acquisition of capital assets	\$ (548,855)			\$ (548,855)
Interest paid on revenue bonds	(10,033)	\$ (33,568)		(43,601)
Principal paid on revenue bonds	(216,108)	(210,000)		(426,108)
Transfer from AVWSD	131,537			131,537
Grants received	779,847			779,847
Miscellaneous	11,014	48,745		59,759
Net cash provided (used) by capital and related financing activities	\$ 147,402	\$ (194,823)	\$...	\$ (47,421)
Cash Flows From Investing Activities:				
Interest and dividends received	\$ 13,726	\$ 3,580		\$ 17,306
Net cash provided (used) by investing activities	\$ 13,726	\$ 3,580	\$...	\$ 17,306
Net increase (decrease) in cash and cash equivalents	\$ 553,517	\$ 17,124	\$...	\$ 570,641
Cash and cash equivalents, July 1	383,935	276,618		660,553
Cash and cash equivalents, June 30	\$ 937,452	\$ 293,742	\$...	\$ 1,231,194

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF CASH FLOWS
PROPERETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	UTILITY FUND	MUNICIPAL BUILDING AUTHORITY	NONMAJOR FUND GOLF COURSE	TOTAL
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (226,248)	\$ 121,970	\$ (7,648)	\$ (111,926)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	\$ 372,028	\$ 95,197	\$ 7,648	\$ 474,873
Increase (Decrease) in utility receivables	(8,524)			(8,524)
Increase (Decrease) in miscellaneous receivables	2,405			2,405
Increase (Decrease) in accounts payable	37,603			37,603
Increase (Decrease) in amounts due to other governmental units	6,301	(8,800)		(2,499)
Increase (Decrease) in customer deposits payable	284			284
Increase (Decrease) in accrued liabilities	1,246			1,246
Total adjustments	\$ 411,343	\$ 86,397	\$ 7,648	\$ 505,388
Net cash provided (used) by operating activities	\$ 185,095	\$ 208,367	\$...	\$ 393,462

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>PAYROLL FUND</u>	<u>TRUST AND AGENCY</u>
<u>ASSETS</u>		
Cash and cash equivalents		\$ 7,571
Accounts receivable	\$ 512	
Due from other funds	<u>156,005</u>	
Total assets	<u>\$ 156,517</u>	<u>\$ 7,571</u>
<u>LIABILITIES</u>		
Accrued liabilities	\$ 156,517	
Due to other funds		\$ 704
Due to other governmental agency		<u>6,867</u>
Total liabilities	<u>\$ 156,517</u>	<u>\$ 7,571</u>
<u>NET ASSETS</u>		
Held in trust	<u>\$...</u>	<u>\$...</u>

"The notes to the financial statements are an integral part of this statement."

**VERNAL CITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

The financial statements of the Vernal City Corporation has been prepared in conformity with accounting principles generally accepted in the United States of America (GASB) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis- for State and Local Governments. Certain significant changes in the Statement include the following: 1) For the first time, the financial statements include a Management's Discussion and Analysis (MD&A) providing an analysis of the City's overall financial position and results of operations. Financial statements prepared using full-accrual accounting for all of the City's activities. 2) A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

Vernal City Corporation is a municipal corporation governed by an elected mayor and five-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended Component Units, although legally separate entities, are in substance part of the government's operations.

Blended component unit. The Municipal Building Authority of Vernal City is included in this report as the Municipal Building Authority (MBA), an enterprise fund, which is a component unit blended in the City's financial statements. Although the MBA is clearly established as a separate entity under state law, it is included due to financial accountability and the extensive oversight provided by the City. Members of the City Council serve as the Board of Directors of the MBA.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

B. **Government-Wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expense of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment- program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those that are required to be accounted for in another fund.

The following capital project fund: Street Construction Fund, account for various capital projects such as street construction, sidewalk, curb & gutter construction, park & green space construction.

The Debt Service Fund accounts for the debt service and bond reserve funds for all SID projects and capital projects that are financed through the use of revenue bonds and SID bonds.

The government reports the following major proprietary funds:

The Water, Sewer & Solid Waste Utility Fund accounts for the operation of and maintenance of the City water distribution system, sewage collection system and residential solid waste collection.

The MBA (Municipal Building Authority) Fund accounts for the revenues & expenses used for the construction and debt service of a Golf Course, several municipal buildings as well as streets & roads within the City.

Additionally, the government reports the following fund types:

- 1) The Vernal City Trust & Agency Fund (a fiduciary fund) accounts for the Vernal City Justice Court Trust Account, The Vernal City Employees Sec 125 Medical Reimbursement Plan Trust Account and the Friends of the Museum Trust Account.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer and solid waste function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water, Sewer and Solid Waste Fund, are charges to customers for sales and services. Operating expenses for enterprise funds include wages and benefits, operating maintenance cost, depreciation and other general and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to first use restricted resources and then unrestricted resources, as they are needed.

D. **Budgetary Data**

Budgets are presented on the modified accrual basis of accounting for all governmental funds and on the accrual basis for proprietary funds. Budgets are not adopted for the Vernal City Trust and Agency Fund. All annual appropriations lapse at fiscal year end. The following procedures are used in establishing the budgetary data reflected in the financial statements.

1. In January of each year, each department of the City prepares requests for capital equipment and capital projects and operating supplies as well as requests for changes in personnel to the City Manager. During April, all department requests are then presented for review to a budget committee made up of two members of the City Council assigned to that particular department, the City Manager, the Finance Director. The committee recommended budgets are then presented to the Mayor and City Council as the Tentative Budget on the first city council meeting in May. During May the Mayor and City Council review the tentative budget with the Department Heads, prepare a final operating budget for the next fiscal year including the means of financing that budget.
2. Copies of the proposed budget are made available for public inspection and by review of the citizens of the city.
3. If the City does not exceed the certified tax rate, a public hearing is held prior to June 22 at which the budget is legally adopted by resolution of the City Council after obtaining taxpayer input. If the City exceeds the certified tax rate, the budget is adopted in August when data is available to set the rates.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

4. Once adopted, the budget can be amended by subsequent city council action. The city council upon recommendations can approve reductions in appropriations, but increases in appropriations by fund require a public hearing prior to amending the budget. In accordance with Utah State law, interim adjustments may be made by the administrative transfer of money from one appropriation to another within any given fund.
5. Minor interim adjustments in estimated revenue and appropriations during the year ended June 30, 2005 have been included in the final budget approved by the city council, as presented in the financial statements.
6. Expenditures may not legally exceed budgeted appropriations at the fund level.

E. Deposits and Investments

The city's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF).

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

G. Inventories

All inventories are valued at cost using the first-in-first-out method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

H. Capital Assets

Capital assets, which include land, water stock, buildings and improvements, and furniture and equipment, and infrastructure assets (e.g., roads, curb, gutter, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines Capital Assets as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

H. **Capital Assets (Continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Buildings, improvements, furniture and equipment and infrastructure assets of the City are depreciated using the straight-line method over the following estimated lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-50
Improvements	10-40
Office equipment	5-20
Machinery and equipment	5-10
Automotive equipment	5-20

I. **Compensated Absences**

Under terms of the Vernal City Personnel Policy, all regular full-time and probationary employees, upon completion of one (1) year of continuous service, shall be eligible to take vacation leave. Employees earn vacation and sick leave in amounts varying with tenure and classification. In the event of termination or death, an employee is reimbursed for accumulated vacation days to a maximum of 240 hours. No reimbursement or accrual is made for unused sick leave. Employees also can accumulate comp time hours. Employees are paid for unused comp time if they are terminated or retire.

All vacation and comp time pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds as they are incurred.

J. **Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

K. **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation, or, are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. DEPOSITS AND INVESTMENTS

Deposits and investing for Vernal City and its blended component unit is governed by the Utah Money Management Act (Utah Code, Title 51, Chapter 7) and rules of the State of Utah Money Management Council.

The City follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of City funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Vernal City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the fund financial statements as cash and investments. Income from the investment of pooled cash is allocated based on each fund's portion of the pool. In addition, cash is separately held by individual funds.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. At June 30, 2005, the City's bank balance of cash on deposit was \$431,682 of this amount \$205,825 was insured. But \$225,863 of the deposits are uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize Vernal City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

2. DEPOSITS AND INVESTMENTS (Continued)

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, and Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2005, Vernal City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 5,927,328	\$ 5,927,328			
Total Investments	<u>\$ 5,927,328</u>	<u>\$ 5,927,328</u>	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City manages this risk in part by investing in the Utah Public Treasurers Investment Fund. The City also manages its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Vernal City has not adopted a formal policy with regards to credit risk on investments but the City informally follows the policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

2. **DEPOSITS AND INVESTMENTS (Continued)**

At June 30, 2005, Vernal City had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
State of Utah Public Treasurer's Investment Fund	\$ 5,927,328				\$ 5,927,328
Total	<u>\$ 5,927,328</u>	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 5,927,328</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. As of June 30, 2005, the City had \$5,927,328 invested in the Public Treasurer's Investment Fund and was held by them.

3. **RESTRICTED CASH**

In connection with bond agreements between Vernal City and Utah Permanent Community Impact Fund Board, Utah Board of Water Resources and Utah Drinking Water Board, the City has agreed to set aside money into sinking funds and a reserve accounts. These funds are to assure that adequate money is available to service debt payments as they come due. The amount to be set aside into the sinking fund is established by each individual bond document. This amount is to be added to the sinking fund on an annual basis until an amount equal to the annual payment of principal and interest is set aside.

3. **RESTRICTED CASH (Continued)**

In prior years, the City also issued other bonds requiring bond sinking funds and bond reserve funds. Actual payments into these sinking and reserve funds are deposited annually until reserves are equal to that required by the individual bond document. These reserved amounts are shown below along with other restricted funds.

Business-type Activities - Enterprise Funds

Utility fund	\$ 861,277
Municipal Building Authority	145,677

Governmental Funds

General	\$ 42,961
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Special Revenue Funds

E911 fund	\$ 100,914
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Debt Service Fund

Bond guarantee	\$ 53,123
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Capital Projects

Street Construction	\$ 313,091
City Park Green Space fund	2,537

4. **PROPERTY TAXES**

The property tax revenue of the City is collected and distributed by the Uintah County Treasurer as an agent of the City. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer. Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at an annual rate equal to the federal discount rate plus 6%; the interest period is from January 1 until date paid. It is expected that all delinquencies plus accrued interest and penalties will be collected within a five-year period, during which time, the county treasurer may force the sale of property to collect the delinquent portion. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

4. **PROPERTY TAXES (Continued)**

Beginning January 1, 1992, there was levied in lieu of the ad valorem tax, an annual uniform fee based on the value of motor vehicles. The uniform fee was 1.5% of the fair market statewide value of the property, as established by the State Tax Commission. On January 1, 1999, legislation became effective which made motor vehicles weighing 12,000 pounds or less subject to an "age-based" fee that is due each time the vehicle is registered. The revenues collected in each county from the uniform fee is distributed by the county to each taxing entity in which the property is located in the same proportion in which revenue collected from ad valorem real property tax is distributed. The City recognizes age-based fee as revenue when the County collects it.

5. **CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government				
Governmental activities:				
Capital assets not being depreciated:				
Land and easements	\$ 1,236,661			\$ 1,236,661
Water stock	23,195			23,195
Total capital assets not being depreciated	\$ 1,259,856	\$...	\$...	\$ 1,259,856
Capital assets being depreciated:				
Buildings	\$ 632,362	\$ 290,615		\$ 922,977
Improvements other than buildings	2,578,429	28,516		2,606,945
Machinery and equipment	1,358,012	259,275		1,617,287
Automotive equipment	1,727,012	99,883		1,826,895
Infrastructure	15,480,771	542,325		16,023,096
Total capital assets being depreciated:	\$ 21,776,586	\$ 1,220,614	\$...	\$ 22,997,200

5. **CAPITAL ASSETS (Continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government				
Governmental activities:				
Less accumulated depreciation for:				
Buildings	\$ 242,630	\$ 21,383		\$ 264,013
Improvements other than buildings	164,275	92,337		256,612
Machinery and equipment	856,502	77,808		934,310
Automotive equipment	929,256	111,921		1,041,177
Infrastructure	<u>2,406,134</u>	<u>522,495</u>		<u>2,928,629</u>
Total accumulated depreciation	<u>\$ 4,598,797</u>	<u>\$ 825,944</u>	<u>\$...</u>	<u>\$ 5,424,741</u>
Total capital assets being depreciated, net	<u>\$ 17,177,789</u>	<u>\$ 394,670</u>	<u>\$...</u>	<u>\$ 17,572,459</u>
Governmental activities capital assets, net	<u><u>\$ 18,437,645</u></u>	<u><u>\$ 394,670</u></u>	<u><u>\$...</u></u>	<u><u>\$ 18,832,315</u></u>

5. **CAPITAL ASSETS (Continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land and easements	\$ 588,544			\$ 588,544
Water stock	54,956			54,956
Total capital assets not being depreciated	<u>\$ 643,500</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 643,500</u>
Capital assets being depreciated:				
Buildings	\$ 1,867,528			\$ 1,867,528
Improvement other than buildings	16,650,025	\$ 408,436		17,058,461
Machinery and equipment	567,371	12,283		579,654
Automotive equipment	373,665	128,135		501,800
Total capital assets being depreciated	<u>\$ 19,458,589</u>	<u>\$ 548,854</u>	<u>\$...</u>	<u>\$ 20,007,443</u>
Less accumulated depreciation for:				
Buildings	\$ 562,658	\$ 58,259		\$ 620,917
Improvements other than buildings	5,445,815	338,260		5,784,075
Machinery and equipment	483,182	23,935		507,117
Automotive equipment	213,021	54,419		267,440
Total accumulated depreciation	<u>\$ 6,704,676</u>	<u>\$ 474,873</u>	<u>\$...</u>	<u>\$ 7,179,549</u>
Total capital assets being depreciated, net	<u>\$ 12,753,913</u>	<u>\$ 73,981</u>	<u>\$...</u>	<u>\$ 12,827,894</u>
Business-type activities capital assets, net	<u>\$ 13,397,413</u>	<u>\$ 73,981</u>	<u>\$...</u>	<u>\$ 13,471,394</u>

5. **CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government	\$ 32,432
Public safety	98,753
Highways and public improvements	600,252
Parks and recreation	<u>94,507</u>

Total depreciation expense -
governmental activities

\$ 825,944

Business-type Activities:

Utility	\$ 372,028
Golf Course	7,648
Municipal Building Authority	<u>95,197</u>

Total depreciation expense -
business-type activities

\$ 474,873

Total depreciation expense

\$ 1,300,817

6. **PENSION PLANS**

At June 30, 2005, Vernal City Corporation was participating in the following retirement plans:

Utah State Retirement Systems

Vernal City Corporation contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with Social Security coverage, all of which are cost-sharing multiple-employer, defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

6. **PENSION PLANS (Continued)**

Utah State Retirement Systems (Continued)

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1 800-365-8772.

Plan members in the Local Governmental Contributory Retirement System are required to contribute 6.00% of their manual covered salary (all or part may be paid by the employer for the employee) and Vernal City is required to contribute 7.08% of their annual covered salary. In the Local Governmental Noncontributory Retirement System, Vernal City is required to contribute 11.09% of their annual covered salary. In the Public Safety Noncontributory Retirement System, Vernal City is required to contribute 19.08% of members' salaries. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Vernal City contributions to the Local Governmental Contributory Retirement System for the years ending June 30, 2005, 2004 and 2003 were \$29,942, \$25,269 and \$22,642 respectively and for the Noncontributory Retirement System the contributions for June 30, 2005, 2004 and 2003 were \$120,962, \$100,708 and \$84,931 respectively and for the Public Safety Noncontributory Retirement System contributions for June 30, 2005, 2004, and 2003 were \$116,870, \$97,554, and \$81,144 respectively. The contributions were equal to the required contributions for each year.

The City also sponsors a defined contribution retirement plan under Internal Revenue Code 401(k), which is administered by the Utah Retirement Systems. The plan covers all City employees who participate in the retirement plans. Participants are fully vested in employer and employee contributions.

6. **PENSION PLANS (Continued)**

Other Retirement Plans

In addition to the state retirement plan, the City participates in another defined contribution plan with ICMA Retirement Corporation.

The City's total retirement contribution per permanent employee is 17.9% of gross pay regardless of plan mix. Vernal City contributions on behalf of employees to the Sec 401A plan are considered small relative to all contributions received by these large multiple employer plans. The percentage is not available. All required City contributions for the fiscal year were on deposit within 30 days after June 30, 2005.

The ICMA plan simply pays out employee-accumulated balances plus interest on an employee elected alternative basis at age 65, or sooner, based on the following vested schedule:

<u>Completed Years of Credited Service With Vernal City (1,000 Hours Minimum Required Per Year)</u>	<u>Vested Percentage</u>
Less than 1 year	None
1 year	50%
2 years	60%
3 years	70%
4 years	80%
5 years	90%
6 or more years	100%

The City also offers, through ICMA Retirement Corporation, to its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participating.

6. **PENSION PLANS (Continued)**

A summary of plan activity for the year ended June 30, 2005 is set forth below:

ICMA RETIREMENT CORPORATION

	<u>401 Plan</u>	<u>457 Plan</u>
Total value of plan assets at June 30, 2004	<u>\$ 1,745,738</u>	<u>\$ 68,580</u>
Current Activity:		
Employer contributions	\$ 135,722	
Employee contributions		\$ 21,042
Earnings (loss)	74,210	1,996
Expenses	(3,315)	(360)
Loans to participants - net	(25,801)	
Distributions	<u>(93,470)</u>	<u>(8,105)</u>
Total current activity	<u>\$ 87,346</u>	<u>\$ 14,573</u>
Total value of plan assets at June 30, 2005	<u><u>\$ 1,833,084</u></u>	<u><u>\$ 83,153</u></u>

7. **LONG-TERM DEBT**

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 300,000	\$ 90,872	\$ 390,872	\$ 372,574	\$ 45,610	\$ 418,184
2007	305,000	84,164	389,164	362,270	59,281	421,551
2008	314,000	77,171	391,171	337,000	53,342	390,342
2009	365,976	99,811	465,787	258,000	47,258	305,258
2010	369,152	91,027	460,179	261,000	43,305	304,305
2011-2014	1,521,932	276,230	1,798,162	868,001	37,460	905,461
2015-2019	1,138,282	179,475	1,317,757	825,000	94,227	919,227
2020-2024	802,760	83,450	886,210	519,000	33,239	552,239
2025-2029	320,898	19,175	340,073	164,000	3,475	167,475
Total	<u>\$ 5,438,000</u>	<u>\$ 1,001,375</u>	<u>\$ 6,439,375</u>	<u>\$ 3,966,845</u>	<u>\$ 417,197</u>	<u>\$ 4,384,042</u>

7. **LONG-TERM DEBT (Continued)**

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance 06-30-04	Additions	Reductions	Ending Balance 06-30-05	Due Within One Year
Governmental activities:					
Interim warrants					
Bonds payable:					
Revenue bonds CIB	\$ 5,238,000		\$ (227,000)	\$ 5,011,000	\$ 251,000
Special assessment bonds	491,000		(64,000)	427,000	49,000
Capital leases	48,501		(48,501)		
Loan payable	3,593		(3,593)		
Compensated absences	164,469		(13,517)	150,952	
Governmental activity long-term liabilities	<u>\$ 5,945,563</u>	<u>\$...</u>	<u>\$ (356,611)</u>	<u>\$ 5,588,952</u>	<u>\$ 300,000</u>
Business-type activities:					
Bonds payable:					
Utility Fund:					
Revenue bonds CIB	\$ 2,034,953		\$ (157,108)	\$ 1,877,845	\$ 99,574
Revenue bonds BOWR	471,000		(42,000)	429,000	42,000
Revenue bonds DWB	237,000		(12,000)	225,000	12,000
Revenue bonds WQB	139,000		(5,000)	134,000	5,000
MBA Fund:					
Revenue bonds CIB	1,511,000		(210,000)	1,301,000	214,000
Business-type activity long-term liabilities	<u>\$ 4,392,953</u>	<u>\$...</u>	<u>\$ (426,108)</u>	<u>\$ 3,966,845</u>	<u>\$ 372,574</u>

8. **CONTINGENT LIABILITIES**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Vernal City Corporation has several pending lawsuits and notice of claims filed by different individuals and entities. The information presented by attorneys indicated that most of the outcomes of lawsuits are undeterminable at the date of audit, but the City is aggressively fighting these claims.

9. **PROPERTY TAX CALENDAR**

The City adopts, by June 22, the proposed tax rates as part of its budget for the current year, which begins July 1. If the proposed rates exceed a certified tax rate, a special public hearing must be held before the final rate is adopted. The final tax rate is assessed by the county assessor on property in the County as of July 1. The taxes are payable to the City treasurer by the end of November and are remitted to the City by the county treasurer as collected.

10. **SEGMENT INFORMATION**

All Enterprise Funds as presented in the financial statements are comprised of the Utility Fund, Golf Fund, and Municipal Building Authority. The Utility Fund accounts for the activities involved with providing water, sewer and refuse collection services. The Golf Fund has very limited transactions and basically owns assets involved with the operation of the golf course. The Golf Course is operated by another governmental organization. The Municipal Building Authority owns and rents real estate. Segment information for each fund is presented below:

CONDENSED STATEMENT OF NET ASSETS

	Utility Fund	Municipal Building Authority	Golf Course
Assets:			
Current assets	\$ 2,167,528	\$ 302,542	\$ 46,438
Capital assets	16,668,512	2,879,454	335,039
Total assets	<u>\$ 18,836,040</u>	<u>\$ 3,181,996</u>	<u>\$ 381,477</u>
Liabilities:			
Current liabilities	\$ 459,675	\$ 358,325	
Noncurrent liabilities	2,507,271	1,087,000	
Total liabilities	<u>\$ 2,966,946</u>	<u>\$ 1,445,325</u>	<u>\$...</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 13,685,114	\$ 1,463,651	\$ 381,477
Restricted	234,664		
Unrestricted	1,949,316	273,020	
Total net assets	<u>\$ 15,869,094</u>	<u>\$ 1,736,671</u>	<u>\$ 381,477</u>

10. **SEGMENT INFORMATION (Continued)**

**CONDENSED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

	<u>Utility Fund</u>	<u>Municipal Building Authority</u>	<u>Golf Course</u>
Operating revenues	\$ 2,862,401	\$ 226,574	
Depreciation expense	(372,028)	(95,197)	\$ (7,648)
Other operating expenses	(2,716,621)	(9,407)	
Operating income	<u>\$ (226,248)</u>	<u>\$ 121,970</u>	<u>\$ (7,648)</u>
Nonoperating revenue (expenses):			
Property taxes	\$ 150,000		
Investment earnings	13,726	\$ 3,580	
Impact fees	103,860		
Interest expense and fiscal charges	(12,294)	(29,685)	
Grants	779,847		
Miscellaneous	11,014	48,745	
AVWSD	131,537		
Joint venture income (loss)	(158,960)		
Total nonoperating revenue (expenes)	<u>\$ 1,018,730</u>	<u>\$ 22,640</u>	<u>\$...</u>
Income (loss) before transfers	<u>\$ 792,482</u>	<u>\$ 144,610</u>	<u>\$ (7,648)</u>
Transfers in (out):			
Transfers	<u>\$ 128,135</u>		
Total transfers	<u>\$ 128,135</u>	<u>\$...</u>	<u>\$...</u>
Change in net assets	\$ 920,617	\$ 144,610	\$ (7,648)
Beginning net assets	<u>14,948,477</u>	<u>1,592,061</u>	<u>389,125</u>
Ending net assets	<u><u>\$ 15,869,094</u></u>	<u><u>\$ 1,736,671</u></u>	<u><u>\$ 381,477</u></u>

10. **SEGMENT INFORMATION (Continued)**

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:			
Operating activities	\$ 185,095	\$ 208,367	
Noncapital financing activities	207,294		
Capital and related financing activities	147,402	(194,823)	
Investing activities	<u>13,726</u>	<u>3,580</u>	
Net increase (decrease)	\$ 553,517	\$ 17,124	\$...
Beginning cash and cash equivalents	<u>383,935</u>	<u>276,618</u>	
Ending cash and cash equivalents	<u>\$ 937,452</u>	<u>\$ 293,742</u>	<u>\$...</u>

OTHER FINANCIAL DATA

	<u>Utility Fund</u>	<u>Municipal Building Authority</u>	<u>Golf Course</u>
Operating revenues:			
Charges for services	\$ 2,862,401	\$ 226,574	
Depreciation expense	372,028	95,197	\$ 7,648
Operating income (loss)	(226,248)	121,970	
Operating transfers in	128,135		
Operating transfers out			
Change in net assets	920,617	144,610	(7,648)
Property, plant, and equipment:			
Additions	548,854		
Deletions			
Net working capital	1,707,853	(55,783)	46,438
Total assets	18,836,040	3,181,996	381,477
Bonds payable	2,665,845	1,301,000	
Total net assets	15,869,094	1,736,671	381,477

11. **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City pays an annual premium to Utah Local Governments Trust for its health insurance coverage, general liability and property coverage. At June 30, 2005, the City had no claims or judgments filed against it related to the risks mentioned above.

12. **RECEIVABLES**

Receivables as of year-end for the government's individual funds including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Utility Fund	Municipal Building Authority	Debt Service Fund	Street Construction Fund	Non- Major Funds	Total
Receivables:							
Miscellaneous		\$ 6,168					\$ 6,168
Assessment				\$354,518			354,518
Accounts	\$ 78,710	203,603			\$ 2,480		284,793
Due from other governments	1,105,341	10,182	\$ 8,800			\$ 9,461	1,133,784
Gross receivables	\$1,184,051	\$219,953	\$ 8,800	\$354,518	\$ 2,480	\$ 9,461	\$1,779,263
Less: allowance for uncollectibles		(7,058)					(7,058)
Net receivables	\$1,184,051	\$212,895	\$ 8,800	\$354,518	\$ 2,480	\$ 9,461	\$1,772,205

13. **INTERFUND BALANCE AND TRANSFERS**

Internal Balances - Included in internal balances on the financial statements are individual fund receivables and payable balances at June 30, 2005 as follows:

	Due From Other Funds	Due To Other Funds
Emergency 911		\$ 8,903
Debt Service	\$ 181,472	
Trust & Agency	156,005	704
General	78,410	1,515,805
Street Construction	255,357	
City Park Green Space		2,351
Narcotics Strike Force		51,834
Equipment Replacement		128,135
Parking Development		1,230
City Wide SID	14,306	
UCVC Interlocal	7,897	
Municipal Building Project	27,893	
Cobble Rock Park	29,389	
Utility Fund	981,405	
Golf Course	46,438	
MBA	8,800	78,410
	<hr/>	<hr/>
Totals	<u>\$ 1,787,372</u>	<u>\$ 1,787,372</u>

13. **INTERFUND BALANCE AND TRANSFERS (Continued)**

Transfers- The following table provides a reconciliation of all interfund transfers:

<u>TRANSFERS</u>		
<u>Fund</u>	<u>In</u>	<u>(Out)</u>
City Storm Drain Project	\$ 150,000	
General		\$ 1,819,137
Utility	128,135	
Debt Service	411,266	
Municipal Building	300,000	
Equipment Replacement	50,000	128,136
Street Construction	717,000	
Housing Rehab.	8,680	
City Park Green Space	100,000	
Parking Development	100,000	
SID		17,808
Totals	<u>\$ 1,965,081</u>	<u>\$ 1,965,081</u>

14. **JOINT OPERATING AGREEMENTS WITH OTHER GOVERNMENTAL ENTITIES**

Vernal City has entered into joint operating agreements with Uintah County to provide services to the residents of Vernal City in the most economical manner to all of the residents of the City. These joint operations include the Vernal City/Uintah County Airport, Vernal City/Uintah County Cemetery, Vernal City/Uintah County Fire Department. Policy for the administration and operation of these joint ventures is established jointly by the Uintah County Commission and Vernal City Council. The entities have agreed to share the net cost after deducting applicable revenues of maintenance and operation, capital outlay and any other approved expenditure according to the following percentages:

- ❖ **Vernal City/Uintah County Airport.**
 Uintah County 75%
 Vernal City 25%
- ❖ **Vernal City/Uintah County Cemetery:**
 Uintah County 50%
 Vernal City 50%
- ❖ **Vernal City/Uintah County Fire Department**
 Uintah County 50%
 Vernal City 50%

14. **JOINT OPERATING AGREEMENTS WITH OTHER GOVERNMENTAL ENTITIES**
(Continued)

There is also a joint operating agreement between Vernal City, Uintah County, Duchesne County, Roosevelt City, Naples City and the State of Utah to operate the Uintah Basin Communications Center. Policy for the administration and operation of the Uintah Basin Communications Center is established jointly by a Governing Board, made up of one member each, from Uintah County Commission, Duchesne County Commission, Vernal City Council, Roosevelt City Council, and the State of Utah Public Safety Communications Director. The State of Utah is responsible for the payment of all operating expenditures, capital expenditures and wages and benefits. The various entities have agreed to share the cost of maintenance and operations, capital outlay and any other approved expenditure. Estimated revenue sources are as follows:

a. Utah Dept of Public Safety	25.0%
b. Uintah County	13.3%
c. Duchesne County	8.1%
d. Vernal City	12.9%
e. Roosevelt City	6.1%
f. Sale of services	34.6%

The Uintah Recreation District was established by Uintah County Commission in October of 1996. The board of district shall consist of ten (10) members. Seven (7) shall be appointed by the Uintah County Commission; one (1) member appointed by Vernal City; one (1) member appointed by Naples City and one (1) member by Ballard Town. The Recreation District is currently responsible for operating several of the Joint Operating Agreements in which Vernal City Participates.

Following is a description of each joint operation:

1. Golf Course

- ❖ Ownership of Facilities. The land and all of the golf course buildings and improvements is owned by Vernal City and The Municipal Building Authority of Vernal City.
- ❖ Administration of facilities. Policy for the administration and operation of the Golf Course Complex is established by the Recreation District Board.

2. City County Parks

- ❖ Ownership of Facilities. The City/County park complex located at 1000 West 300 North. The land and all of the buildings are owned jointly by Uintah County and Vernal City. Each entity owns 50% of the assets.
- ❖ Administration of facilities. Policy for the administration and operation of the City/County Park Complex is established by the Recreation District.

14. **JOINT OPERATING AGREEMENTS WITH OTHER GOVERNMENTAL ENTITIES**
(Continued)

There is a joint operating agreement dated January 24, 2001 between Vernal City, Naples City and Uintah County to construct and operate the Uintah Animal Shelter located at 1387 East 335 South, Vernal, UT. The project is to be administered by Vernal City.

The facility shall be owned by the Municipal Building Authority of Vernal City and the permanent Community Impact Board of the State of Utah.

Cost sharing of all operation and maintenance expenses and capital expenditures shall be shared by Vernal City, Naples City and Uintah County on the basis of actual use of the shelter as measured by the number of animals housed at the shelter during the fiscal year preceding the fiscal year (July, 1 – June, 30) in which the expenses are to be paid.

CIB loan repayment shall be shared by Vernal City, Naples City and Uintah County on the basis of actual use of the shelter as measured by the number of animals housed at the shelter during the fiscal year preceding the fiscal year (July, 1 – June, 30) in which the expenses are to be paid.

15. **JOINT VENTURE**

The Ashley Valley Sewer Management Board is a joint venture formed to provide sewage disposal service to the residence of the Ashley Valley. The participants in the joint venture are Vernal City, Maeser Water and Sewer Improvement District and Ashley Valley Water and Sewer Improvement District. The Governing Board is comprised of two (2) members from each of the participating entities. The Board makes all the decisions relating to operations, budgeting, etc. A condensed audited financial statement is outlined below:

ASHLEY VALLEY SEWER MANAGEMENT BOARD
BALANCE SHEET
DECEMBER 31, 2004
(AUDITED)

<u>Assets</u>	
Current assets	\$ 4,129,741
Property and equipment (net)	20,127,854
Restricted assets	968,308
Other assets	1,273
Total assets	<u><u>\$ 25,227,176</u></u>
<u>Liabilities and Fund Equity</u>	
Current liabilities	\$ 388,342
Long-term liabilities	5,604,000
Fund equity	19,234,834
Total liabilities and fund equity	<u><u>\$ 25,227,176</u></u>

15. **JOINT VENTURE (Continued)**

Each of the participants has a 1/3 interest in the joint venture. The City's activity for the year ended June 30, 2005 is presented below:

Beginning Balance, 6-30-04	\$ 6,570,571
Vernal City's operating loss (Total loss 476,879 x 1/3)	<u>(158,960)</u>
Ending Balance, 6-30-05	<u><u>\$ 6,411,611</u></u>

All of the financial information presented above, and the information as reported in the accompanying financial statements, is taken from audited financial statements prepared by Karren, Hendrix & Associates, CPA's P.C, Salt Lake City, Utah.

16. **PRIOR PERIOD ADJUSTMENT**

Prior period adjustments consist of the following items:

Revenues recorded in the incorrect
fund in the prior year:

General Fund	\$ 5,391
Emergency 911 Fund	(5,391)
City Wide SID	51,249
Debt Service	(51,249)

Incorrect accrual of revenue in
the prior year:

(11,712)

Net Adjustment

\$ (11,712)

17. **POST EMPLOYMENT BENEFITS**

In February of 2005, the Vernal City Council adopted an amendment to the City's Personnel Policies and Procedures providing for a post employment benefit using accrued sick leave of an eligible employee. Briefly stated, the benefit is afforded to employees who have a minimum of 10 years of employment with the City, allowing such employees to utilize a limited amount of accrued sick leave to be converted to a benefit. Presently, two previously terminated employees are utilizing this benefit. The benefit paid out during the current fiscal year amounted to \$3,798. The City is aware of present State litigation associated with this type of policy and further is aware of potential disclosure requirements pertaining to the financial liabilities of this policy.

VERNAL CITY CORPORATION
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	SPECIAL REVENUE FUNDS			CAPITAL PROJECT FUNDS							TOTAL	
	NARCOTICS STRIKE FORCE	EMERGENCY 911	UCVC INTERLOCAL AGENCY	PARKING DEVELOPMENT	MUNICIPAL BUILDING PROJECT	CITY STORM DRAIN PROJECT	CITY PARK GREEN SPACE	EQUIPMENT REPLACE-MENT	COBBLE ROCK PARK	HOUSING REHAB	CITY WIDE SID	NONMAJOR GOVERNMENTAL FUNDS
ASSETS												
Investments: restricted		\$ 100,915					\$ 2,537					\$ 103,452
Cash and cash equivalents	\$ 1,700											1,700
Investments	125,375			\$ 211,900	\$ 535,233	\$ 312,152	433,125	\$ 488,602				2,106,387
Due from other funds		\$ 7,897			27,893				\$ 29,389		\$ 14,306	79,485
Due from other governments	8,639		822									9,461
Total assets	\$ 135,714	\$ 100,915	\$ 8,719	\$ 211,900	\$ 563,126	\$ 312,152	\$ 435,662	\$ 488,602	\$ 29,389	\$	\$ 14,306	\$ 2,300,485
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable	\$ 430				\$ 53,370	\$ 3,386					\$ 52,374	\$ 109,560
Accrued liabilities	3,782											3,782
Due to other funds	51,834	\$ 8,903		\$ 1,230			\$ 2,351	\$ 128,135				192,453
Total liabilities	\$ 56,046	\$ 8,903		\$ 1,230	\$ 53,370	\$ 3,386	\$ 2,351	\$ 128,135	\$	\$	\$ 52,374	\$ 305,795
Fund balances:												
Unreserved, reported in:												
Special revenue funds	\$ 79,668	\$ 92,012	\$ 8,719	\$ 210,670	\$ 509,756	\$ 308,766	\$ 433,311	\$ 360,467	\$ 29,389		\$ (38,068)	\$ 180,399
Capital project funds												1,814,291
Total fund balances	\$ 79,668	\$ 92,012	\$ 8,719	\$ 210,670	\$ 509,756	\$ 308,766	\$ 433,311	\$ 360,467	\$ 29,389	\$	\$ (38,068)	\$ 1,994,690
Total liabilities and fund balance	\$ 135,714	\$ 100,915	\$ 8,719	\$ 211,900	\$ 563,126	\$ 312,152	\$ 435,662	\$ 488,602	\$ 29,389	\$	\$ 14,306	\$ 2,300,485

VERNAL CITY CORPORATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE FUNDS					CAPITAL PROJECT FUNDS						TOTAL NONMAJOR GOVERNMENTAL FUNDS
	NARCOTICS STRIKE FORCE	EMERGENCY 911	UCVC INTERLOCAL AGENCY	PARKING DEVELOPMENT	MUNICIPAL BUILDING PROJECT	CITY STORM DRAIN PROJECT	CITY PARK GREEN SPACE	EQUIPMENT REPLACE- MENT	COBBLE ROCK PARK	HOUSING REHAB	CITY WIDE SID	
REVENUES:												
Intergovernmental revenue	\$ 52,398						\$ 63,949				\$	\$ 116,347
Miscellaneous	923		\$ 1,664								\$ 18,467	\$ 21,054
Investment earnings	3,589	\$ 1,285		\$ 3,265	\$ 12,493	\$ 6,390	12,500	\$ 11,955				\$ 51,477
Total revenues	\$ 56,910	\$ 1,285	\$ 1,664	\$ 3,265	\$ 12,493	\$ 6,390	\$ 76,449	\$ 11,955	\$	\$	\$ 18,467	\$ 188,878
EXPENDITURES:												
Public safety	\$ 96,612	\$ 10,000										\$ 106,612
Highways and public improvements						\$ 35,810						\$ 35,810
Parks, recreation, and public property					\$ 290,616		\$ 10,840	\$		\$ 85	\$ 56,626	\$ 360,071
Capital outlay			\$ 1,904	\$ 3,005				\$ 193,715				\$ 196,720
Debt service - principal								48,501				\$ 48,501
Debt service - interest								2,127				\$ 2,127
Total expenditures	\$ 96,612	\$ 10,000	\$ 1,904	\$ 3,005	\$ 290,616	\$ 35,810	\$ 10,840	\$ 244,343	\$	\$ 85	\$ 56,626	\$ 749,841
Excess of revenues over (under) expenditures	\$ (39,702)	\$ (8,715)	\$ (240)	\$ 260	\$ (278,123)	\$ (29,420)	\$ 65,609	\$ (232,388)	\$	\$ (85)	\$ (38,159)	\$ (560,963)
Other financing sources (uses):												
Transfers in				\$ 100,000	\$ 300,000	\$ 150,000	\$ 100,000	\$ 50,000		\$ 8,680	\$	\$ 708,680
Transfers out								(128,135)			\$ (17,808)	\$ (145,943)
Total other financing sources (uses)	\$	\$	\$	\$ 100,000	\$ 300,000	\$ 150,000	\$ 100,000	\$ (78,135)	\$	\$ 8,680	\$ (17,808)	\$ 562,737
Excess of revenues and other sources over (under) expenditures and other uses	\$ (39,702)	\$ (8,715)	\$ (240)	\$ 100,260	\$ 21,877	\$ 120,580	\$ 165,609	\$ (310,523)		\$ 8,595	\$ (55,967)	\$ 1,774
Fund Balances - Beginning of year	119,370	95,336	8,959	110,410	487,879	188,186	267,702	670,990	\$ 29,389	3,117	(33,350)	\$ 1,947,988
Prior period adjustment		5,391								(11,712)	51,249	\$ 44,928
Fund Balances - End of year	\$ 79,668	\$ 92,012	\$ 8,719	\$ 210,670	\$ 509,756	\$ 308,766	\$ 433,311	\$ 360,467	\$ 29,389	\$	\$ (38,068)	\$ 1,994,690

VERNAL CITY CORPORATION
COMBINING STATEMENT OF REVENUES AND EXPENSES
UTILITY FUND
FOR THE YEAR ENDED JUNE 30, 2005

				TOTALS	
	WATER DEPT.	SEWER DEPT.	SOLID WASTE DEPT.	JUNE 30, 2005	JUNE 30, 2004
OPERATING REVENUES:					
Charges for services	\$ 1,521,877	\$ 1,156,007	\$ 184,517	\$ 2,862,401	\$ 2,868,241
Total revenues	\$ 1,521,877	\$ 1,156,007	\$ 184,517	\$ 2,862,401	\$ 2,868,241
OPERATING EXPENSES:					
Wages and benefits	\$ 322,361	\$ 95,389		\$ 417,750	\$ 409,401
Services and supplies	1,126,457	989,782	\$ 182,632	2,298,871	2,067,804
Depreciation	244,911	127,117		372,028	358,229
Total operating expenses	\$ 1,693,729	\$ 1,212,288	\$ 182,632	\$ 3,088,649	\$ 2,835,434
Net income (loss) from operations	\$ (171,852)	\$ (56,281)	\$ 1,885	\$ (226,248)	\$ 32,807
NON-OPERATING REVENUES (EXPENSES):					
Transfers in (out)		\$ 128,135		\$ 128,135	\$ (20,685)
Transfer AVSMB		131,537		131,537	35,654
Interest earnings	\$ 13,591	135		13,726	7,368
Impact fees	33,000	70,860		103,860	59,800
Miscellaneous	4,933	6,081		11,014	6,905
Joint venture income (loss)		(158,960)		(158,960)	(136,131)
Grant	779,847			779,847	120,000
Property taxes	150,000			150,000	
Interest expense	(7,519)	(4,775)		(12,294)	(10,414)
Total non-operating revenue (expenses)	\$ 973,852	\$ 173,013	\$...	\$ 1,146,865	\$ 62,497
NET INCOME (LOSS)	\$ 802,000	\$ 116,732	\$ 1,885	\$ 920,617	\$ 95,304

**VERNAL CITY CORPORATION
COMPARATIVE BALANCE SHEET
GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	JUNE 30, 2005	JUNE 30, 2004
	<hr/>	<hr/>
<u>ASSETS</u>		
Cash	\$ 150,653	\$ 200,750
Investments: restricted	156,223	41,930
Investment at cost	1,746,479	1,033,725
Accounts receivable	78,710	116,707
Due from other governments	1,105,341	913,573
Prepaid expense	5,000	5,000
	<hr/>	<hr/>
Total assets	<u>\$ 3,242,406</u>	<u>\$ 2,311,685</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Liabilities:		
Accounts payable	\$ 207,563	\$ 456,290
Due to other funds	1,515,805	490,733
Escrow deposit payable	102,968	5,610
	<hr/>	<hr/>
Total liabilities	<u>\$ 1,826,336</u>	<u>\$ 952,633</u>
Fund Equity:		
Reserved for compensated absence	\$ 150,952	\$ 163,982
Reserved for Class "C" Road	52,573	84,035
Unreserved	1,212,545	1,111,035
	<hr/>	<hr/>
Total fund equity	<u>\$ 1,416,070</u>	<u>\$ 1,359,052</u>
Total liabilities and fund balance	<u>\$ 3,242,406</u>	<u>\$ 2,311,685</u>

VERNAL CITY CORPORATION
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
WATER DEPARTMENT
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	JUNE 30, 2005	JUNE 30, 2004
OPERATING REVENUES:		
Charges for service	\$ 1,521,877	\$ 1,603,740
Total operating revenues	\$ 1,521,877	\$ 1,603,740
OPERATING EXPENSES:		
Wages and benefits	\$ 322,361	\$ 312,960
Services and supplies	1,126,457	1,018,917
Depreciation	244,911	237,734
Total operating expenses	\$ 1,693,729	\$ 1,569,611
NET INCOME (LOSS) FROM OPERATIONS	\$ (171,852)	\$ 34,129
NON-OPERATING REVENUES (EXPENSES):		
Transfer AVWSD		\$ 35,654
Interest expense	\$ (7,519)	(5,476)
Grant	779,847	120,000
Interest earnings	13,591	5,994
Impact fees	33,000	23,800
Property taxes	150,000	
Miscellaneous	4,933	2,793
Total non-operating revenues	\$ 973,852	\$ 182,765
NET INCOME (LOSS)	\$ 802,000	\$ 216,894

VERNAL CITY CORPORATION
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
SEWER DEPARTMENT
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	JUNE 30, 2005	JUNE 30, 2004
OPERATING REVENUES:		
Charges for service	\$ 1,156,007	\$ 1,118,009
Total operating revenues	\$ 1,156,007	\$ 1,118,009
OPERATING EXPENSES:		
Wages and benefits	\$ 95,389	\$ 96,441
Services and supplies	989,782	907,049
Depreciation	127,117	120,495
Total operating expenses	\$ 1,212,288	\$ 1,123,985
NET INCOME (LOSS) FROM OPERATIONS	\$ (56,281)	\$ (5,976)
NON-OPERATING REVENUES (EXPENSES):		
Miscellaneous	\$ 6,081	\$ 4,112
Transfer AVSMB	131,537	
Interest earnings	135	1,374
Impact fees	70,860	36,000
Joint venture income	(158,960)	(136,131)
Interest expense	(4,775)	(4,938)
Transfers in (out)	128,135	(20,685)
Total non-operating revenues (expenses)	\$ 173,013	\$ (120,268)
NET INCOME (LOSS)	\$ 116,732	\$ (126,244)

VERNAL CITY CORPORATION
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
SOLID WASTE DEPARTMENT
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	JUNE 30, 2005	JUNE 30, 2004
OPERATING REVENUES:		
Charges for service	\$ 184,517	\$ 146,492
Total operating revenues	\$ 184,517	\$ 146,492
OPERATING EXPENSES:		
Services and supplies	\$ 182,632	\$ 141,838
Total operating expenses	\$ 182,632	\$ 141,838
NET INCOME (LOSS) FROM OPERATIONS	\$ 1,885	\$ 4,654
NET INCOME (LOSS)	\$ 1,885	\$ 4,654

SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.
R. KIRT RICH, C.P.A.
GREG MARSING, C.P.A.
DOUGLAS RASMUSSEN, C.P.A.

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and Members of the City Council
Vernal City Corporation
Vernal, Utah 84078

RE: Auditor's Report on State Compliance
For State Grants

Ladies/Gentlemen:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Vernal City Corporation for the year ended June 30, 2005 and have issued our report thereon dated November 17, 2005. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah.

Class "C" Road (Utah Department of Transportation)
Liquor Law Enforcement (State Tax Commission)
CIB Loan (Department of Community and Economic Development)
CIB Grants (Department of Community and Economic Development)

The City did not receive any non-major State grants during the year ended June 30, 2005.

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt	Truth in Taxation & Property
Budgetary Compliance	Tax Limitations
Cash Management	Liquor Law Enforcement
Purchasing Requirements	B & C Road Funds
Other Compliance Requirements	Uniform Building Code
Justice Courts Compliance	Standards
Impact Fees	Asset Forfeitures

The management of Vernal City Corporation is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Vernal City Corporation, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

SMUIN, RICH & MARSING
Smuin, Rich & Marsing

Price, Utah

November 17, 2005

SMUIN, RICH & MARSING

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Honorable Mayor and Members of the City Council
Vernal City Corporation
Vernal, Utah 84078

RE: Report on Compliance and on Internal
Control Over Financial Reporting Based
on an Audit of Financial Statements Per-
formed in Accordance With Government
Auditing Standards

We have audited the financial statements of Vernal City Corporation as of and for the year ended June 30, 2005, and have issued our report thereon dated November 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING
Smuin, Rich & Marsing

Price, Utah

November 17, 2005

SMUIN, RICH & MARSING

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Honorable Mayor and Members of the City Council
Vernal City Corporation
Vernal, Utah 84078

Ladies/Gentlemen:

The following comments and recommendations are a result of our review of the accounting procedures and internal controls in connection with our examination of the financial statements of Vernal City Corporation for the year ended June 30, 2005.

Since our review was made primarily to determine the scope of our auditing procedures and was not intended as a comprehensive study or evaluation of the systems and procedures, this memorandum should not be considered all inclusive.

We welcome the opportunity to discuss any items mentioned in this memorandum or any other accounting or procedural questions.

DEFICIT FUND BALANCE

According to Utah State Law, Cities are not allowed to spend more funds than what they receive, by doing so, they create a deficit in the department or fund. The State Auditor has taken the position that a deficit, created by expenditures being made in excess of available funds, is in violation of the Utah Constitution. During the audit, we found the City Wide SID fund had a deficit fund balance for the year ending June 30, 2005.

We recommend the City take the necessary steps to remove the deficit during their next calendar year.

BUDGETARY COMPLIANCE

Utah law prohibits officers and employees of Cities to incur expenditures or encumbrances in excess of the total appropriations for any fund or department of the City. The City has overspent the following department – other financing sources (uses):

General Fund – Transfer Out

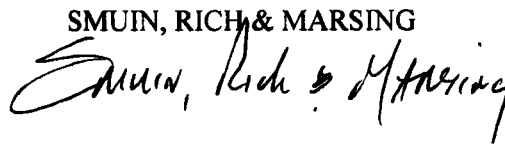
We recommend Verity City review the expenditures made, with the adopted budget, to determine if the budgets of the departments or funds are being overspent. Department directors need to evaluate the expenditures for their departments to ensure that budgets are not being overspent.

SUMMARY

We feel the accounting procedures and internal control item mentioned above is an area where Vernal City Corporation can make changes so as to further improve their internal control structure to safeguard the assets, check the accuracy and reliability of accounting data and promote operating efficiency.

Sincerely,

SMUIN, RICH & MARSING

A handwritten signature in cursive script that reads "Smuin, Rich & Marsing". The signature is written in dark ink and is positioned below the printed name.

Price, Utah

November 17, 2005



447 East Main

Vernal, Utah 84078
(435) 789-2255

January 6, 2006

SMUIN, RICH, & MARSING
P.O. BOX 820
PRICE, UT 84501

RE: *Management Letter - Response to Memorandum:*

Deficit Fund Balance:

In the Audit FY-2005 the financial statement showed a deficit balance in the City Wide SID fund. In the latter part of June there were some expenditures in this fund that were not properly budgeted for because the final FY-2005 Budget Re-opener had already been adopted. There was no additional time to make that adjustment.

Vernal City will make it the first priority in the FY-2006 budget to cover this deficit. The Finance Department will make every effort to catch these last minute items in the future.

Budgetary Compliance:

In the Audit FY-2005 the financial statement for Budget Amounts (exhibit 7) "Other Financing Sources" shows an excess amount of \$ 6,814 of a budget of \$ 2,039,739. The transfer was to cover expenses that were not reimbursed from the State. There was confusion between the State and Vernal City as to when to file the reimbursement request. The request was filed, but because of the delay, was denied by the State.

Vernal City will ensure that work done in conjunction with final inspections and reimbursement requests are appropriately completed.

We appreciate the Auditors of Smuin, Rich, & Marsing and State Auditors in helping us in bringing these compliance issues to our attention.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken Bassett".
Ken Bassett,
City Manager